

Analysis of High Income Individuals' Restriction 2017

August 2019

Strategy, Evaluation & Reporting Branch

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*Any statistical queries in relation to the high income
individuals' restriction can be directed to statistics@revenue.ie.*

1 Background

The 2006 and 2007 Finance Acts introduced, with effect from 1 January 2007, measures to limit the use of certain tax reliefs and exemptions (known as “specified reliefs”) by high-income individuals who, by means of the cumulative use of various tax incentives, had in previous years the potential to substantially reduce their tax liabilities.

The overall objective is to ensure that, from 2007, individuals with an adjusted income of €500,000 or more (where the full restriction applied) pay an effective rate of Income Tax of approximately 20 per cent on a combination of adjusted income and ring-fenced income.¹ The restriction began to apply where an individual’s adjusted income exceeded €250,000 and the full restriction applied where an individual had adjusted income of €500,000 or more.

The 2010 Finance Act introduced further limitations on the use of specified reliefs, with effect from 1 January 2010. These limitations are designed to ensure that individuals with an adjusted income level of €400,000 or more (where the full restriction applies) pay an effective rate of Income Tax of approximately 30 per cent on a combination of adjusted income and ring-fenced income. In addition, the adjusted income on which the restriction begins to apply was reduced to €125,000.

This report relates to the use of specified reliefs by high-income individuals who are subject to the restriction in the tax year 2017 (the most recent year for which data are currently available). Reports relating to previous years, as well as statistics on the tax paid by all individuals, are available on the Revenue website.² Reports for later tax years will be published at the same location, once returns are filed and the analysis undertaken.

¹ Adjusted income for a tax year is the sum of an individual’s taxable income before the restriction is applied plus the aggregate amount of specified reliefs used in the year, less ring-fenced income (income which is normally liable to tax at specific rates regardless of the amounts involved or the individual’s marginal rate of tax, e.g., interest from which DIRT is deducted).

² Prior year reports are published at <https://www.revenue.ie/en/corporate/information-about-revenue/research/statistical-reports/high-income-earners-reports.aspx> and Revenue statistics can be found at <http://www.revenue.ie/en/about/statistics/index.html>.

2 Results for 2017

Analysis of the application of the high-income individuals' restriction for the tax year 2017 shows that the objective of achieving an effective rate of Income Tax of approximately 30 per cent for individuals with an adjusted income of €400,000 or more is achieved.

Where adjusted income is less than €400,000, a tapering approach ensured that there is a graduated application of the restriction, with the effective rate of Income Tax increasing towards 30 per cent as adjusted income increases towards €400,000.

A summary of how the restriction operated for the tax year 2017, and the specified tax reliefs covered by the restriction, is included in Annex 1.

A breakdown of the 2017 results showing the effect of the restriction in its eleventh year of operation is set out in Annex 2. These results are based on actual returns received. A comparison of the outcome for 2007 through to 2017 is set out below.

Year	Total Number of Individuals	Estimated Additional Income Tax €m
2017	439	33.1
2016	521	38.51
2015	625	47.21
2014	779	54.73
2013	904	60.43
2012	1,050	63.21
2011	1,143	63.6
2010	1,544	80.18
2009	452	38.86
2008	423	39.68
2007	439	39.99

The results for 2017 show that the overall number of individuals who are subject to the restriction is 439 and that the estimated additional Income Tax yield is €33.1m. Compared to 2016, this represents a decrease of 82 in the number of individuals and a decrease of €5.4m in the additional yield from the measure.

Cases where Full Restriction applies – Adjusted Income of €400,000 or more

Table 1A (Annex 2) shows that the 121 high-income individuals with an adjusted income of €400,000 or more (i.e., where the full restriction applied) pay an average effective Income Tax rate of 29.9% on the combination of adjusted income and ring-fenced income. These individuals pay on average 40.2% tax inclusive of Universal Social Charge (USC).

This meets the objective set out for the measure. The estimated additional Income Tax involved is €22 million, representing a 246% increase on the tax that would otherwise have been paid if the restriction had not applied. Furthermore, of those 121 individuals, 44 who would not otherwise have paid Income Tax in 2017 are brought into the tax net.

Table 1B (Annex 2) summarises the distribution of the effective tax rates for the 121 cases with adjusted income of €400,000 or more. It shows that the majority of high-income individuals within this category fall into the effective Income Tax rate bands of 30% to 35% (65 cases).

Cases where Restriction partly applies – Adjusted Income of up to €400,000

Table 2A (Annex 2) shows that the 318 high-income individuals with an adjusted income of up to €400,000 (i.e., where the restriction applies on a graduated basis) pay an average effective Income Tax rate of 19.35% on the combination of adjusted income and ring-fenced income. These individuals pay on average 28.4% tax inclusive of USC.

The estimated additional Income Tax involved is €11.1 million representing a 240 per cent increase on the tax that would otherwise have been paid if the restriction had not applied. Furthermore, of those 318 individuals, 153 individuals who would not otherwise have paid Income Tax in 2017 are brought into the tax net.

Table 2B (Annex 2) summarises the distribution of the effective Income Tax rates for the 318 cases with adjusted income of up to €400,000. The spread reflects the graduated nature of the application of the restriction for cases in this category.

Schedule of Declared Use of Reliefs

Table 3 (Annex 2), in relation to each specified relief, shows:

- The overall number of individuals subject to the restriction, who declared that they used the relief; and
- The total combined amount of the relief declared as used by those individuals.

Annex 1

Operation of the Restriction in the tax year 2017

The restriction works by limiting the total amount of “specified reliefs” that a high-income individual can use to reduce his or her tax liability in any one tax year.

In the tax year 2017, the overall objective is to ensure that individuals with an adjusted income of €400,000 or more would pay an effective rate of tax of approximately 30 per cent on a combination of adjusted income and ring-fenced income. A graduated application of the restriction below an adjusted income level of €400,000 would ensure that the effective rate of tax increases towards 30 per cent as adjusted income increased towards €400,000.

For the tax year 2017, the restriction applies to an individual where all of the following criteria applied:

- The adjusted income of the individual for the tax year is equal to or greater than an Income Threshold Amount which is, in general, €125,000 but is less if the individual has ring-fenced income (e.g., deposit interest);
- The aggregate of specified reliefs used by the individual for the tax year is equal to or greater than a Relief Threshold Amount, which is set at €80,000; and
- The aggregate of specified reliefs used by the individual for the tax year is greater than 20% of the individual’s adjusted income.

In the case of married couples and civil partners who are jointly assessed, application of the restriction to each spouse or civil partner is determined separately. Therefore, in 2017, the restriction applies to each individual spouse or civil partner only where the three circumstances above apply to that spouse or civil partner for that tax year.

Specified Reliefs

Broadly speaking, the reliefs that are restricted include:

- The various sectoral and area-based property tax incentives;
- Certain exemptions (e.g., relating to artists’ income and dividends and distributions out of certain exempt income);
- Certain investment incentive reliefs such as Business Expansion Scheme (BES), Relief for investment on significant buildings and gardens and film relief; and
- Relief for interest paid on loans used to acquire an interest in a company or in a partnership.

Normal business-related expenses, deductions for capital allowances on plant and machinery, business-related trading losses and losses from a rental activity that do not arise from the use of specified reliefs are not restricted. In addition, personal tax credits are not affected by the restriction.

Annex 2

Table 1A: Cases with Adjusted Income of €400,000 or more

Range of Adjusted Income	Number of Cases	Estimated Income Tax before Restriction	Income Tax after Restriction	Estimated Additional Income Tax after application of Restriction	Estimated Average Effective Rate before application of Restriction	Average Effective Rate after application of Restriction	Tax including USC payable after Restriction	Average Effective Rate (including USC) after application of Restriction
€		Amount €	Amount €	Amount €	Rate %	Rate %	Amount €	Rate %
400,000 to 500,000	38	1,856,901	5,012,983	3,156,082	16.1%	29.5%	6,676,326	39.3%
500,001 to 650,000	31	2,094,341	5,326,262	3,231,921	16.7%	29.9%	7,250,784	40.7%
650,001 to 800,000	12	868,425	2,582,360	1,713,934	20.4%	30.4%	3,458,210	40.8%
800,001 to 1,000,000	11	409,087	2,855,372	2,446,284	15.6%	27.9%	3,904,945	38.1%
1,000,001 to 1,500,000	20	2,771,033	7,375,569	4,604,535	15.7%	30.5%	9,871,702	40.9%
1,500,001 to 2,000,000	<10	636,167	1,633,173	997,006	11.3%	31.3%	2,208,200	42.7%
Over 2,000,000	<10	303,618	6,123,864	5,820,246	4.5%	31.5%	8,258,333	42.3%
Totals	121	8,939,572	30,909,583	21,970,008	16.0%	29.9%	41,628,500	40.2%

Table 1B: Effective Income Tax Rates after restriction – cases with Adjusted Income of €400,000 or more

Effective Rate	Number of Cases	% of all Cases
≤15%	<10	N/A
>15% ≤25%	<10	N/A
>25% ≤30%	53	43.80%
>30% ≤35%	65	53.72%
Above 35%	0	0.00%
Totals	121	100%

Table 1C: Effective Tax Rates after restriction – inclusive of USC – cases with Adjusted Income of €400,000 or more

Effective Rate (Including USC)	Number of Cases	% of all Cases
≤30%	<10	N/A
>30% ≤35%	<10	N/A
>35% ≤40%	56	46.28%
>40% ≤45%	52	42.98%
>45% ≤50%	<10	N/A
Above 50%	0	0.00%
Totals	121	100%

Note: Certain items are deductible when arriving at adjusted income (e.g., pension contributions, certain rental capital allowances on plant and machinery, trading losses against other income, etc.) that are not deductible against income on which USC is chargeable. These differences can give rise to taxpayers having effective USC inclusive tax rates on their adjusted income in excess of the top rate of tax plus the top rate of USC.

Table 2A: Cases with Adjusted Income of up to €400,000

Range of Adjusted Income	Number of Cases	Estimated Income Tax <i>before</i> Restriction	Income Tax <i>after</i> Restriction	Estimated Additional Income Tax <i>after</i> application of Restriction	Estimated Average Effective Rate <i>before</i> application of Restriction	Average Effective Rate <i>after</i> application of Restriction	Tax including USC payable <i>after</i> Restriction	Average Effective Rate (including USC) <i>after</i> application of Restriction
€		Amount €	Amount €	Amount €	Rate %	Rate %	Amount €	Rate %
Under 160,000	63	213,437	1,005,813	792,377	6.61%	10.62%	1,777,982	17.56%
160,001 to 200,000	74	507,290	2,204,216	1,696,926	8.08%	16.32%	3,381,246	25.11%
200,001 to 250,000	67	874,553	3,079,269	2,204,716	9.60%	20.44%	4,439,765	29.52%
250,001 to 325,000	68	1,811,747	4,716,838	2,905,091	13.42%	24.29%	6,506,222	33.52%
325,001 to 399,999	46	1,226,631	4,759,581	3,532,950	13.96%	28.07%	6,439,880	38.09%
Totals	318	4,633,658	15,765,717	11,132,060	10.48%	19.35%	22,545,095	28.39%

Table 2B: Effective Income Tax Rates after restriction – cases with Adjusted Income of up to €400,000

Effective Rate	Number of Cases	% of all Cases
≤10%	35	11.01%
>10% ≤15%	49	15.41%
>15% ≤20%	76	23.90%
>20% ≤25%	82	25.79%
Above 25%	76	23.90%
Totals	318	100%

Table 2C: Effective Tax Rates after restriction – inclusive of USC – Adjusted Income of up to €400,000

Effective Rate (Including USC)	Number of Cases	% of all Cases
>0% ≤15%	15	4.72%
>15% ≤20%	35	11.01%
>20% ≤25%	49	15.41%
>25% ≤30%	80	25.16%
>30% ≤35%	72	22.64%
>35% ≤40%	55	17.30%
>40% ≤45%	12	3.77%
Above 45%	0	0.00%
Totals	318	100%

Note: Certain items are deductible when arriving at adjusted income (e.g., pension contributions, certain rental capital allowances on plant and machinery, trading losses against other income, etc.) that are not deductible against income on which USC is chargeable. These differences can give rise to taxpayers having effective USC inclusive tax rates on their adjusted income in excess of the top rate of tax plus the top rate of USC.

Table 3 – Schedule of Declared Use of Different Reliefs in accordance with Schedule 25B of the Taxes Consolidation Act, 1997

Ref Number	Specified Relief	Number of Cases	Amount of Relief used in 2017 by those affected by the Restriction €
1/2/3/4	Sect 140, 141, 142 and 143 – dividends and distributions out of exempt income from stallion fees, stud greyhounds, woodlands, patents, certain mines and other mining operations	<10	264,711
5	Sect 195 – Exempt income, profits or gains of artists, writers or composers	<10	154,661
6	Sect 231 – Exempt stallion fees		N/A
7	Sect 232 – Exempt woodland income	<10	18,842
8	Sect 233 – Exempt stud greyhound fees		N/A
9	Sect 234 – Exempt patent royalty income		N/A
10/11	Sect 248 and 250 – relief for interest paid on loans to acquire an interest in a company		N/A
12	Sect 253 – relief for interest paid on loans to acquire an interest in a partnership		N/A
13	Sect 272 – writing down allowances in respect of capital expenditure on:		
	• hotels and holiday camps/cottages	16	6,345,303
	• nursing homes, residential units attached to nursing homes and convalescent homes	13	1,948,823
	• hospitals, sports injury clinics and mental health centres	10	1,150,709
14	Sect 273 – accelerated writing down allowances in respect of certain industrial buildings or structures	<10	364,987
15	Sect 274 – balancing allowances in respect of capital expenditure on:		
	• hotels and holiday camps/cottages	<10	599,635
	• nursing homes, residential units attached to nursing homes and convalescent homes	<10	135,262
	• hospitals, sports injury clinics and mental health centres	<10	530,900
15A	Sect 304(4) – Carry forward of capital allowances (relating to specified reliefs) in trading situations		N/A
15B	Sect 305(1) – Set off and carry forward of capital allowances (relating to specified reliefs) in rental situations	<10	1,052,464
15C	Sect 284 (subject to section 485C(1B) – wear & tear allowances on plant and machinery claimed by a passive trader when leasing the plant and machinery to a manufacturing trade.		N/A
15D	288 (subject to section 485C(1B) – balancing allowances on plant and machinery claimed by a passive trader when leasing the plant and machinery to a manufacturing trade		N/A
16/17	Sect 323 and 324 – Custom House Docks Area: capital allowances for commercial premises and double rent allowance in respect of rent paid for certain business premises	<10	198,932
18/19/20	Sect 331, 332 and 333 – Temple Bar Area: capital allowances for industrial buildings, commercial premises and double rent allowance in respect of rent paid for certain business premises		N/A
21	Sect 341 – Urban Renewal Scheme: capital allowances for industrial buildings	<10	1,156,968
22	Sect 342 – Urban Renewal Scheme: capital allowances for commercial buildings	12	1,393,244
23	Sect 343 – Enterprise Area: capital allowances for certain buildings	<10	350,019
24	Sect 344 – Multi Story Car Park capital allowances	<10	220,101
25	Sect 345 - Urban Renewal, Enterprise Area, Multi Story Car Park: double rent allowance in respect of rent paid for certain business premises	<10	126,667
26	Sect 352 – Qualifying Resort Area: capital allowances for certain industrial buildings		N/A
27	Sect 353 – Qualifying Resort Area: capital allowances for certain commercial buildings	<10	7,385

Ref Number	Specified Relief	Number of Cases	Amount of Relief used in 2017 by those affected by the Restriction €
28	Sect 354 – Qualifying Resort Area: double rent allowance in respect of rent paid for certain business premises		N/A
29	Sect 372C – Qualifying (Urban) Areas: capital allowances for certain industrial buildings	<10	1,492,586
30	Sect 372D – Qualifying (Urban) Area and Living over the shop scheme: capital allowances for certain commercial buildings	<10	804,869
31/32	Sect 372M and Sect 372N – Qualifying Rural Areas: capital allowances for certain industrial and commercial buildings	<10	399,106
33/34	Sect 372V and 372W – Park and Ride Scheme: Capital allowances for Park and Ride Facilities and for certain commercial buildings		N/A
35	Sect 372AC – Town Renewal Area: capital allowances for certain industrial buildings	<10	597,932
36	Sect 372AD – Town Renewal Area: capital allowances for certain commercial buildings	12	1,151,275
36A/36B	Sect 372AX and 372AY – Mid Shannon Corridor Tourism Scheme: capital allowances for certain registered holiday camps and tourism infrastructure facilities		N/A
37/38	Sect 372AP and Sect 372AU(1) – Relief for lessors of residential premises (“section 23” type relief, including old schemes)	38	6,339,818
38A	Sect 372AAC – Living City Initiative: capital allowances in relation to conversion or refurbishment of certain commercial premises		N/A
39	Sect 381 – Repayment of tax due to losses (arising from use of specified reliefs)	<10	6,445
40	Sect 381 – Repayment of tax due to losses (arising from use of specified reliefs), as extended by Sect 392	<10	144,707
41	Sect 382 – Carry forward of losses (arising from use of specified reliefs) to future years		N/A
42/43/44	Sect 383, Sect 384 and Sect 385 – Relief (arising from use of specified reliefs) for losses under Case IV and Case V and for Terminal losses	33	5,260,351
45	Sect 481 – Relief for investment in Films		N/A
46	Sect 482 – Relief for investment on significant buildings and gardens	<10	301,044
47	Sect 485F – Carry forward of excess relief	283	91,880,457
47A	Sect 489(2)(a) – Employment and Investment Incentive Scheme ³	37	2,322,836
48	Sect 489(3) – BES relief		N/A
48A	Sect 823A – Deduction for income earned in certain foreign states		N/A
49	Sect 843 – Capital allowances for buildings used for third level education purposes	<10	325,753
50	Sect 843A – Capital allowances for certain child-care facilities	<10	112,815
51	Sect 847A – Donations to certain sports bodies	<10	100,300
52	Sec. 848A – Donations to approved bodies ⁴		N/A
53	Paragraph 11 of Schedule 32, Urban Renewal Scheme 1986: Capital allowances for certain commercial premises in designated areas	<10	247,576
54	Paragraph 13 of Schedule 32, Urban Renewal Scheme 1986: Double rent allowances in relation to certain premises in designated areas	<10	3,828
	Totals	549	127,511,311

Notes: for publication purposes some categories have been amalgamated; where the number of cases is marked “<10”, this indicates the number is less than 10 but the exact figure is not shown to protect taxpayer confidentiality; “N/A” indicates that the Specified Relief is either unavailable or has not been availed of in the period under review.

³ The combination of section 16 Finance (No. 2) Act 2013 and section 20 Finance Act 2016 mean that an investment made after 15 October 2013 in the EII Scheme is not a specified relief.

⁴ Relief under section 848A in respect of contributions to “approved bodies” was discontinued for donations made on/after 1 January 2013